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Cotton and Products

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Report Highlights:

A slowdown in Portuguese total textiles manufacturing is expected to depress national 2001/02 and 2002/03 raw cotton imports down to forecasted 110,000 Mt and 100,000 Mt. The turmoil currently affecting the local textiles industry is also negatively affecting raw cotton imports from the U.S., which presently consist in small quantities of PIMA cotton. A recovery in sales is anticipated for the medium-term, after the current industry re-structure is complete. 1 USD = 1.08 EUROS.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Madrid [SP1], PO

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Executive Summary

Portugal continues to have no cotton production since it was suspended in 2000 for lack of local ginning infra-structures. In decline due to the recession affecting key export markets, Portuguese 2001/02 raw cotton consumption is expected to remain at 114,400 Mt (135,200 Mt in 2000/01). Another reduction is anticipated for 2002/03 down to forecasted 109,200 Mt. In addition to a great dependency upon textile demands in export markets, primarily in the EU, Portuguese manufacturing activity levels will also depend upon the competitiveness of third country textile exporters into the EU. Now favored by the implementation of the third phase of the GATT Agreement from 2002 to 2005, Middle and Far Eastern textile manufacturers will affect not only local manufacturing of yarn and un-differentiated fabrics, but also the sensitive garments sector. Given current restrictive factors affecting Portuguese textiles, domestic cotton consumption is expected to continue to trend down over the medium-term future.

Portuguese 2001/02 raw cotton imports are estimated at only 110,000 Mt (134,425 Mt in 2000/01) as a consequence of the slowdown in local cotton spinning activities. Another reduction down to forecasted 100,000 Mt is anticipated for 2002/03. Total raw cotton imports are likely to come down somewhat over the medium-term, in association with local raw cotton consumption trends. Cotton trade is also becoming more concentrated, with African cotton presently accounting for roughly seventy pct of the total, due to favorable quality/price ratios, geographical proximity and flexible trade practices.

U.S. cotton exports into Portugal totaled 463 Mt during 2000/01, a historic low. Given the price premium commanded by U.S. cotton and the current financial difficulties of the Portuguese textile industry, 2001/02 raw cotton imports of U.S. origin will tend to remain under the previous year levels, around estimated 450 Mt. Another reduction, down to forecasted 400 Mt, is anticipated for 2002/03 in association with the contraction in total trade levels. Only in the long-run, after the Portuguese textiles industry has re-structured and reached a new equilibrium, is it expected that U.S. cotton will be liable to recover share in this market.

1 USD = 1.08 i

Commodity Name: Raw Cotton

Production, Supply & Distribution Table

PSD Table						
Country	Portugal					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	32877	56145	32006	55351	32006	50951
Production	0	0	0	0	0	0
Imports	135208	134425	130636	110000	0	100000
TOTAL SUPPLY	168085	190570	162642	165351	32006	150951
Exports	0	19	0	0	0	0
USE Dom. Consumption	136079	130000	130636	110000	0	105000
Loss Dom. Consumption	0	5200	0	4400	0	4200
TOTAL Dom. Consumption	136079	135200	130636	114400	0	109200
Ending Stocks	32006	55351	32006	50951	0	41751
TOTAL DISTRIBUTION	168085	190570	162642	165351	0	150951

Production

After a brief period of commercial-scale cultivation in the *Alentejo* province, cotton stopped being produced in Portugal in 2000/01. Its lack of success derived from the high irrigation-requirements of the crop, as well as insufficient existing local processing infra-structures. In particular, the non existence of a ginning factory in Portugal, and the reduced EU-assigned cotton quota (1,500 MT/year), insufficient to justify the building of a new factory, forced locally-produced cotton to be transported by truck into Spain to be ginned. These accrued costs were reportedly critical to the economic viability of the crop, translating into end-prices unable to compete with imported cotton. No changes are anticipated for the near-term future.

Consumption

General

The economic recession, and the unrest of international markets of cotton and finished textiles, depressed Portuguese total raw cotton consumption during the first part of the 2001/02 marketing year. Local industry contacts report a slowdown in orders from foreign markets after the September 11th Attack, especially felt in the case of the Hotel industry whose orders of bed sheets and linen dropped sharply in association with the ensuing tourism activity crisis. Other local restrictive factors affected domestic cotton use, namely a general reduction in banking credits derived from recent banking consolidation operations. The spinning activity slowdown led to the accumulation of cotton stocks, while the increasing financial difficulties of the spinners accelerated bankruptcies. Industry sources report that the local spinners are presently using cotton imported six-months ago, while others are trying to cancel previously-signed import contracts, on the grounds of the incompatibility of the agreed prices with current textile price levels (see more in Trade section).

Some positive signs are nevertheless visible. Numbers of orders for textiles recently placed are reported to have increased considerably, which could be related to the nearing of the Summer season and last minute re-adjustments in the fashion collections. This is reported to be especially significant in the knitted garments sector, in which case the local textile industry is reputed to be able to meet the orders very competitively relative to third country manufacturers, in both timing and quality terms. Further, as part of the industry renovation, a new large spinning plant went into operation at the beginning of 2001/02, mitigating somewhat the sector's onsumption reductions.

Outlook for 2002/03 is tied above all to developments in demand for textiles in export markets, especially in the EU, and on the capability of Portuguese textiles in remaining competitive relative to Middle and Far-Eastern manufacturers. The implementation of the third stage of the GATT Accords, gradually, and between January 2002 and 2005, will eventually enable tariff-free market access for these countries in product areas to which Portuguese textiles are deemed to be sensitive. Competition will tend to continue to be especially felt in the yarn and un-differentiated fabrics segments, which will be joined by garments of Chinese origin. Garments and garment-related products remain among the most sensitive textile sub-sectors, due to the difficulties of Portuguese fashion asserting itself domestically and in foreign markets.

Consumption Patterns

SM cotton for ring-spinning (1.3/32 and 1.1/16) continues to dominate local cotton demand patterns with some 60 pct of total cotton used. The remaining 40 pct is accounted for by SLM cotton (1.1/16 and 1.1/8) for open-end use. Estimated at some 1,500 to 2,000 Mt, ELS cotton use remains depressed by large imports of threads by the textile industry. SM cotton is basically sourced from Equatorial Africa, and SLM cotton from Central Africa and the FSU.

Industry Structure

The Portuguese textile association (APT) reports existence of 495 textile operational units. There are some 57 units equipped with autonomous spinners, and 62 are vertically-integrated factories. Installed production capacity includes 42,000 O-E Rotors, of which only some 35,000 are reported to be operational at present, roughly 900,000 spindles and 12,000 looms. Only some ten of the total operating spinning mills are considered to be in optimal conditions, 15 to 20 in medium condition, and the remaining in poor financial shape. The industry leaders - fully integrated with fabric or

household production units - account for some 80 pct of total consumption. With a very high level of industry concentration, two mills consume some 1,000 Mt/ month, seven mills some 650 to 700 MT/month, and two mills 400 Mt/ month.

The Portuguese textile industry has benefitted from strong EU structuring supports since Portugal joined the European Economic Community in 1986. This financial flow is presently conveyed under so-called EU third Community Support Framework (CSF III) in effect for the 2000 to 2006 period - see more under Policy. The large numbers of spinners in financial stress are obsolete, and affected by excessive labor and in-debt levels. The reduced spinning margins discourage investment in new spinning mills, and recent investments in the textile business have been basically directed to fabrics dying, new looms or product finishing. An exception is the opening of the new milling factory in early 2001/02 as indicated above. However, this new spinning unit is not an isolated investment, and represents a backwards integration from high-quality fabrics for manufacturing of superior quality shirts with high-quality thread production. The main sector strategic emphasis remains the expansion of higher-quality products which enable the industry to capitalize on its know-how and geographic proximity to key consuming markets. Home-Textiles continues to be considered one of the stronger textile sub-sector in spite of a small recession in CY-2001 exports. This sub-sector is favored by modern factories with high quality standards, and well-developed export policies. Technical textiles production, i.e., car seats and other manufactured goods, while not so significant in output terms, is one of the best positioned textile sub-sectors, having had the largest export expansion rate among main textile categories during CY-2001. Garments, and fashion-related articles are affected by the lack of assertion of Portuguese fashion, and exports of Garments, knitted and other, during CY-2001 suffered some of the largest reduction rates among all textile categories. As the GOP and APT continue to promote Portuguese fashion domestically and abroad, local textiles manufacturers continue to rely on strategies of client portfolio diversification in order to reduce risks of depending upon few clients, a critical hazard in a period of trade liberalization. For a summary of comparative Portuguese textile trade during CY-2000 and CY-2001, please check tables at the end of the Trade section.

Produced yarn is mostly n.e. 30, 24 and 20 in the case of ring-spinning units, and 16, 12 and 10 in that of open-end ones. Carded and open-end yarn account for some eighty pct of total yarn production. Share of combed yarn in total has been increasing due to the industry needs to upgrade yarn and fabrics production.

Trade

General

The slowdown in domestic spinning activity induced a large reduction in August-to-December 2001 cotton imports relative to the similar period in 2000, and will tend to depress 2001/02 marketing year total raw cotton trade levels. Given continuing low manufacturing, and relatively high stocks levels (see Consumption section), total 2002/03 imports are expected to be depressed again, regardless of the fact that raw cotton prices have dropped even more than a year ago. As indicated above, this sharp price reduction eventually led to a deterioration rather than an improvement in the competitiveness of Portuguese textiles, as end-products manufactured with comparatively high-priced cotton in stocks must compete with products produced from a much cheaper raw material. This situation is further reported to be changing attitudes relative to "traditional" contracts with fixed prices, as they are felt to be inadequate in light of current market conditions. Many cotton users are trying to re-structure old contracts (see Consumption), and trade disputes

are rising.

Trade matrices with estimated 2001/02 and forecasted 2001/03 data are given below. At the end of the section, we also provide total textile import-export tables with total value trade broken down by product category, and leading countries of origin/destination.

Trade trends

East and West Africa continue to dominate Portuguese raw cotton trade, favored by tradition, buying habits, geographical proximity, and high quality/price ratios. Even the fact that African cotton is quoted against the French Franc instead of the U.S. Dollar has worked in favor of African cotton during recent past, as well as over the current marketing year. Note that recent official trade data reveals this concentration trend, with the national statistics office reporting that total 2000/01 raw cotton imports from Africa accounted for 73 pct of total imports, up from 68 pct in 1999/00. At the same time, imports from the FSU and Turkey, two previously important origins, continued to decline, both accounting for only nine pct of total 2000/01 raw cotton imports, down from 13 pct in 1999/00. Whereas FSU exports have declined under the effects of the regaining of control of cotton trade by the local authorities which reflected itself in generally higher export prices, Turkish ones dropped as a result of accrued domestic textile manufacturing activity levels. Raw cotton imports from the U.S. have been on a continuous decline for the past few years, primarily as result of its high export prices and of the changes affecting Portuguese textiles (see more under Factors Affecting the U.S., below).

Trade trends will tend to remain mostly unchanged in 2001/02. The current financial situation of Portuguese textile manufacturers will tend to increase the industry's dependency upon low prices and flexible contractual and payment terms. This means in practical terms the tightening of trade relations with African countries to the detriment of most sources, including the U.S..

Factors Affecting the U.S.

High export prices and incidence of neps remain the factors affecting U.S. cotton most frequently indicated by the local trade. U.S. exporters reported business-like, impersonal approach to trade relations is also perceived to have negative effects upon the popularity of U.S. cotton among the local users, as personal relations and face-to-face contacts remain an important part of local business-doing. On the other hand, U.S. cotton exporters are considered to look onto the local market with a great deal of indifference, and are believed to be presently focused upon the Far Eastern markets, where demand is boosted by special local Government incentives. Another restriction yet is the relatively high shipping costs of bringing in U.S. cotton as, due to the relatively small quantities handled, U.S. cotton is transhipped at an additional cost into the *Leixões* harbor in northern Portugal from any of the large harbors where the large transatlantic vessels coming from the U.S. dock - in Antwerp, Rotterdam, Barcelona or Genova. The trade also mentions that lately, cotton types offered by U.S. exporters have inadequate quality properties for local milling standards, namely high micronaire and low grades with coloring problems.

PORTUGAL: 2000 AND 2001 TOTAL VALUE TEXTILE TRADE BY
PRODUCT TYPE IN \$ MILLION

	IMPORTS		EXPORTS		2000-01 VARIATION	
	2000	2001	2000	2001	IMP	EXP
					(%)	
Woolen Articles	193	181	93	102	-7	10
Cotton Articles	649	631	195	190	-3	-2
MMF Articles	305	276	224	180	-9	-20
Ropes & Felps	76	64	114	119	-15	4
Carpets & Rugs	52	39	44	43	-26	-3
Articles for Technical Uses	202	143	153	231	-29	51
Knitted Garments	450	445	1722	1636	-1	-5
Other Garments	453	449	1079	984	-1	-9
Home Textiles	66	62	792	761	-6	-4
All Other	601	534	120	126	-11	5
TOTAL	3049	2824	4536	4374	-7	-4

MILLION USD. 2000: 1 USD = 217.737 PTE; 2001: 1 USD = 223.882 PTE

PORTUGAL: 2000 AND 2001 TOTAL VALUE TEXTILE TRADE BY
ORIGIN/ DESTINATION IN \$ MILLION

IMPORTS			EXPORTS			2000-01 CHANGE	
	2000	2001		2000	2001	IMP.	EXP.
						(%)	
Spain	649	671	Germany	729	652	3	-10
Italy	401	439	U.K.	692	688	9	-1
Germany	383	382	Spain	662	664	-0	0
France	334	344	France	637	695	3	9
U.K.	150	139	USA	355	310	-8	-13
Belgium-Lux	123	54	Netherlands	219	222	-56	2
Netherlands	89	78	Italy	205	197	-13	-4
Pakistan	77	71	Sweden	164	142	-7	-13
Turkey	55	69	Denmark	131	116	25	-11
Other	789	577	Other	743	687	-27	-7
TOTAL	3049	2824	TOTAL	4536	4373	-7	-4

Trade Matrix

Import Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	Aug/Dec	Units:	Metric Tons
Imports for:	2000		2001
U.S.	119	U.S.	97
Others		Others	
EU	2095	EU	78
Tchad	10208	Tchad	6720
Brazil	591	Brazil	5,234
Mozambique	5,334	Mozambique	3,990
Zimbabwe	6691	Zimbabwe	3957
Cameroon	5112	Cameroon	3316
Usbekstan	2917	Usbekstan	2754
Syria	2444	Syria	2520
Turkey	529	Turkey	1862
Argentina	832	Argentina	1816
Total for Others	36753		32247
Others not Listed	19673		11682
Grand Total	56545		44026

Export Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	Aug/Dec	Units:	Metric Tons
Exports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
EU	14		0
Total for Others	14		0
Others not Listed	0		0
Grand Total	14		0

Import Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	Aug/July	Units:	Metric Tons
Imports for:	2001		2002
U.S.	450	U.S.	400
Others		Others	
EU	4600	EU	4250
Tchad	17000	Tchad	15000
Brazil	13,000	Brazil	11,000
Mozambique	10,000	Mozambique	9,000
Zimbabwe	9800	Zimbabwe	8900
Cameroon	8300	Cameroon	7550
Usbekstan	6900	Usbekstan	6250
Syria	6300	Syria	5725
Turkey	4650	Turkey	4230
Argentina	4550	Argentina	4150
Total for Others	85100		76055
Others not Listed	24450		23545
Grand Total	110000		100000

Export Trade Matrix			
Country	Portugal		
Commodity	Cotton		
Time period	Aug/July	Units:	Metric Tons
Exports for:	2001		2002
U.S.	0	U.S.	0
Others		Others	
EU	20	EU	25
Total for Others	20		25
Others not Listed	0		0

Grand Total	20		25
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Policy

The Portuguese textile industry has drawn considerable public financial supports since Portugal joined the European Economic Community in 1986, to address the difficult process of economic and trade transition. Due to the high importance of this sector in economic and labor terms, the GOP continues to direct considerable resources and means to the textile industry re-shaping and market development policies. The Portuguese textile industry is eligible to the third EU Community Support Framework (CSF III), in effect between 2000 and 2006. Under the CSF III, the EU co-finances investment projects of textile industry modernization and financial re-structure, as well as fashion design and marketing. The GOP also directly sponsors marketing activities for the Portuguese textile industry through Portuguese foreign trade institute (ICEP), which organizes and co-finances marketing activities in foreign markets, including participation in fairs and in trade delegations.

The EU concessions under the GATT Agreement were a major blow to the Portuguese textile industry. The third stage of liberalization, to become gradually effective between January 2002 and 2005 - date of total liberalization-, is the most severe ever, as it affects products considered to be very sensitive.

Under the WTO negotiations, market access and reciprocity are the most important issues for the sector, especially in what concerns trade relations between the EU and Asia. The GOP considers that most third countries have higher import tariffs than the EU, which unfairly affects the competitiveness of Portuguese textile producers, both in the EU, as well as in third country markets. Other issues the GOP will focus in the WTO talks include dumping practices, environmental policies and social and labor practices, for their competition and trade-distorting effects. Turkey, Pakistan, India and China are the key targets for the GOP competition re-establishment policies.

Marketing

The Portuguese textile industry remains one of the leading EU cotton users, a fact which is not likely to change significantly over the next coming years despite anticipated consumption reductions. PIMA cotton is virtually the only U.S. cotton type viewed as having favorable prospects under current market conditions, due to the existence of several financially-sound mills manufacturing threads and high-quality fabrics for shirts. PIMA cotton is affected by the competition from Egyptian ELS cotton, which is favored by geographic proximity and lower transportation costs. Under current market conditions, MEMPHIS cotton, which competes directly with African cotton, is considered to have very flimsy possibilities of developing a market here. The same applies to San Joaquin Valley cotton, which is reported to be presently displaced by very similar, but slightly cheaper Australia cotton.

Minimal U.S. presence should be maintained here. Promotional material should be distributed among the local cotton mills. Crop quality seminars would also be useful to inform the buyers about the properties of each new crop, as well as about any advantages conveyed by U.S. cotton. Inter-personal contacts should be developed, given local purchasing preferences.

Some eighty pct of total cotton imports are made directly by the larger millers. The remaining twenty pct are handled

by independent dealers, while traditional importers, who buy the cotton to re-sell locally are rare. Third country exporters rely basically on price advantages and face-to-face contacts. Other than the U.S., only Tchad, Mali and Zimbabwe have in-country representatives. A few other, mostly European, who also represent FSU cotton, send occasional trade missions to visit Portuguese importers. Some exporters like Zimbabwe, Israel, Argentina and the FSU occasionally bring a group of importers into their countries. No third country competitor is engaged in the same type of sector-wide promotional activities which have been carried out by the U.S. in the past.